

**Navajo Proposed Amended Marketing Plan**  
**Public Information Forums**  
**September 19 & 22, 2006**  
**Question & Responses**

Q. What constitutes an appropriate saving/how is it included in this process?

A. Appropriate saving was not defined in the Hoover Power Plant Act of 1984 (Hoover Act). The intent is that the price of power would not be set at such a high price that would not allow Navajo Surplus to be sold. During hearings on the Act, it was stated that "appropriate saving" was intended to mean that the rates should be set at levels that would fulfill the statutory purposes of helping to offset Central Arizona Project (CAP) construction yet allow the Navajo Surplus to be sold.

Q. What Indian Projects are named in the Arizona Water Settlements Act (Settlements Act)?

A. There are a number of Indian Projects named in the Settlements Act. The Settlements Act is posted on the Navajo Remarketing web page.

Q. Can you provide documents that show the changes to Colorado River Basin Project Act (Basin Act) made under the Settlements Act?

A. The Settlements Act is posted on the Navajo Remarketing web page. Section 107 of the Settlements Act amends section 403 of the Basin Act. A copy of the Basin Act prior to the changes under the Hoover Act and the Settlements Act is also posted.

Q. How will the rates be determined?

A. The rates will be determined through a competitive process. At this time, auctions and requests for proposal (RFP) have been identified as competitive processes that may be used. There may also be other types of competitive processes.

Q. Who determines if products will be available on a multi-year or annual basis and will this be determined in the final marketing plan?

A. Western, in consultation, with the Bureau of Reclamation (Reclamation) and the Central Arizona Water Conservation District (CAWCD) will develop the products marketed including the term of the products. This will not be determined in the final marketing plan. This will be determined in the annual plan process after the Navajo Surplus that is available to market has been determined by Reclamation, in consultation with CAWCD.

Q. Slide 22 of the presentation refers to first opportunity. Could you explain what is meant by the first opportunity provision in the original Navajo Power Marketing Plan (Original Plan)?

A. The Original Plan has a provision that contractors with long-term contracts that expire in September 30, 2011, would be given the first opportunity for new long-term sales contracts. Such new contracts shall be entered into prior to October 1, 2007.

Q. Does the first opportunity provision give Salt River Project (SRP) the first opportunity to all the Navajo Surplus?

A. The amount of power that would be included in any new contract under the first opportunity provision would be determined through negotiation with SRP.

Q. Does anyone but SRP have a first opportunity right?

A. No. SRP is the only entity with a contract for Navajo Surplus under the Original Plan.

Q. Is transmission capacity available separately from the Navajo Surplus?

A. Transmission capacity on the Navajo Transmission System that is required for the sale of Navajo Surplus is covered under the Proposed Amended Plan. The process for marketing excess Navajo Transmission System capacity has not been determined.

Q. If a Contractor cannot use all the power they purchased, can they resell Navajo Surplus?

A. No, Western's General Power Contract Provisions (GPCPs) Article 17, regarding resale of power would apply to Navajo Surplus Sales. A copy of the GPCPs is posted on the Navajo Remarketing web page.

Q. Are any of the changes proposed under the Proposed Amended Plan (shown in slides 28-30 related to Optimize Surplus and Financial Assistance) tied to the Indian water right settlements in the Settlements Act?

A. None of these changes are a direct result of the Settlements Act, however, the optimization of revenue from Navajo Surplus sales will help fund Indian water-related activities identified in the Settlements Act.

Q. Where does the revenue from Navajo Surplus sales go?

A. The funds are deposited into the Lower Colorado River Basin Development Fund which is administered by Reclamation. It is used first to pay costs associated with the sale of the Navajo Surplus, then to the purposes set forth under the Basin Act as amended



by the Settlements Act. These purposes include credits against CAWCD's annual repayment and funding specific Indian water-related activities.

Q. Is the power going to be sold in minimum increments?

A. No minimum increments have been determined at this time. Various products will be sold in different increments.

Q. How would preference apply to the auction process?

A. All qualified entities would be allowed to participate in auctions. Preference entities, in order of priority, will always have the opportunity to purchase the product by matching the bid of lower priority entities before the opportunity to purchase is offered to lower priority entities.

Q. Could you provide more details on how an ascending clock auction works?

A. Under an ascending clock auction, the bidding begins at an initial price and is increased in discrete increments. Bidders enter the quantity they are willing to purchase at each price. All bids must be entered in the initial round and the quantities requested by a bidder can only be decreased. The bidding continues until the total quantity bid is less than the quantity available. The product is then allocated among the bidder at the prior price (or clearing price) at which there was sufficient demand as long as the clearing price is at or above the reserve (minimum) price.

For Navajo Surplus, preference entities (in order of priority) would have the opportunity to purchase at the clearing price before the opportunity to purchase is offered to lower priority entities.

Q. Would the auction be in real time so bids are known to others?

A. Under the ascending clock option bids (prices and quantities) are made known to all bidders. This may not be the case for other types of auctions.

Q. Does the October 1, 2007 deadline for executing new contracts apply to all new contracts?

A. The October 1, 2007 date applies only to the first opportunity for new contracts that is provided to long-term contractors under the Original Plan. SRP is the only contractor under the Original Plan and therefore the only entity for which this first opportunity deadline is applicable.

Q. When are the first auctions and deliveries under the Amended Plan anticipated?

A. The first deliveries under the Amended Plan will be on or after October 1, 2011. We anticipate the initial marketing under the Amended Plan will be less than one year prior to the first deliveries.

Q. If contracts with SRP are executed under first opportunity provisions, will the details of these contracts be published?

A. The contracts would be treated in the same manner as other Western contracts. Details concerning the amounts of power under any such contract may be disclosed to the extent such information is relevant to the power available to be marketed under the Amended Plan.

Q. Will the process for finalizing the Amended Plan be on hold during negotiations with SRP concerning potential new contracts?

A. No. Completion of the Amended Plan is not dependent upon contract negotiations with SRP.

Q. Will an amount of power be withheld for entities other than the current contractor (SRP)?

A. There is not an amount of power specified for new contractors under the Proposed Amended Plan.

Q. What would be the term of the new contracts with SRP if any are executed under first opportunity provisions?

A. The term of any such contracts would be negotiated.

Q. What is the term of the Proposed Amended Plan?

A. The Proposed Amended Plan does not terminate so long as there is Navajo Surplus available to market.

Q. Would the cost of operating the Navajo Generating Station (NGS) be made available to entities as they prepare bids of Navajo Surplus?

A. No. The rates for Navajo Surplus would not be dependent on the operating costs at NGS.

Q. Were there any changes to the September 19<sup>th</sup> presentation in the September 22<sup>nd</sup> presentation except for the deletion of the word "Amended" in slide 25?

A. No, the only change was the deletion of the word "Amended" from slide 25 that was noted during the September 19<sup>th</sup> presentation.



Q. Will the determination of whether a preference entity be considered an Arizona Preference entity be based upon their headquarters locations or their service territory? This entity is headquartered in Arizona, but has California loads as well.

A. Western would base the determination on the entity's preference loads in Arizona. Having a service area that extends outside of Arizona, in addition to having preference loads in Arizona, would not exclude an entity from being considered an Arizona preference entity.

Q. Is it correct that Navajo Surplus under the Proposed Amended Plan would not be allocated in a set amount over a year like other Western projects but sold more on a spot market basis?

A. Some of the Navajo Surplus may be sold as an around-the-year product, but most of it will be available in blocks that are for a specific month or months.

Q. When is the end of the plant life for NGS?

A. There is no fixed end of plant life for NGS. NGS is being maintained with the intent of continued operations for many years. There are agreements, leases, and easements that must be renewed at various future dates in order to continue operations and these renewals are being pursued by the plant participants.

Q. If NGS is no longer in operation or is out for an extended period, who is responsible for replacing the power?

A. In terms of power for CAP pumping, CAWCD would be responsible for replacing the power. For Navajo Surplus sales, it would depend on the product that is marketed. If the product is sold as plant contingent, then the buyer would be responsible for replacing the power. If the product is sold as firm then the product would be backed by other resources and the sale would be maintained during a plant outage. It should also be noted that that Navajo Surplus sales would not be made beyond the discontinuation of operations if this were known in advance.

Q. Is Western going to publish the cost of Navajo Surplus to SRP under the current contracts?

A. No, this is not relevant to the Proposed Amended Plan. The costs under the SRP contracts would be considered proprietary information and would not be released to the public.